Financial results
Half year ended
31 December 2016

Investor and analyst briefing Q&A transcript

Questions and Answers

MYLES ALLSOP, UBS: Hi, Andrew and Peter. I just have a quick question around capital allocation; clearly that is one of the big concerns in the market, given the track record of this industry. First of all, how much free cash flow do you think you are generating at spot and when you look at the three main buckets – growth, returns and balance sheet – how would you prioritise it? On the growth side, when will you step up capex? On onshore, are there any M&A opportunities out there at the moment, or is that fairly limited? And on the capex side, there is around $6 billion of capex this year and next year pretty locked in, so should we start thinking if prices stay higher we could see a more meaningful step up in returns in 12 months' time?

ANDREW MACKENZIE: Peter, I think you should probably handle the majority of that. I would just start off by saying that we provided guidance for capital this year and next year. I do not see it deviating much from that, but maybe Peter can add to that and answer the first parts of your question.

PETER BEAVEN: Myles, a couple of things I would just say on that. How much free cash flow at spot – we will not give that. We do not need to, I do not think. We gave that number last year. We were just trying to illustrate at that time when prices were low that this company had the ability to generate significant amounts of EBITDA and free cash flow. I think we have demonstrated that, so that is fine. You have your own models. I am sure you can have a crack at it yourself.

In terms of the prioritisation of the capital allocation, again, we just refer you back to that capital allocation framework. It is very strong and it is very much embedded in everything that we do. Nothing has changed there. We will continue to prioritise the integrity of our business and the strong balance sheet. I spoke about it just a moment ago. Then we will, as I say, continue to invest.

The projects that we have in place are the ones that we have spoken to you about a number of times. I doubt there is going to be a huge amount of things that we would add to that for the foreseeable future. If there are opportunities in M&A that come our way for value and they fit our portfolio, of course we continue to look at those things, but you know that that is very hard to actually effect and we do not need to do anything about that.

Finally, I would say that as far as the balance sheet is concerned, as I say, we are biased towards a further reduction. So I think the only thing I would just call out is that shale is very flexible. We are very happy with that and we undertake capital allocation on a quarterly basis because we have to be very nimble. We will keep updating the market very regularly, as we have. That is the only thing that has a little bit of change probably associated with it.

ANDREW MACKENZIE: Myles, just to add a bit to that, we are engaged at quite a low level, but I think several thousand acres have been exchanged in the asset trading and the consolidation that I think really helps to assemble an acreage where you can draw longer laterals across our shale business. That is happening all the time in a small way, but not I think the bigger transactions you were talking about. Can we get the next question?

DUNCAN SIMMONDS, BANK OF AMERICA MERRILL LYNCH: Hi. Good morning. I have two questions, firstly on Trion. Can you broadly outline the next steps from here? Has anything really changed post your initial bid win? That is the first one. Secondly, just on productivity in terms of iron ore just noting on the cost side around $15, you talked about $1 of adverse impacts in the half, but there is probably still a little bit of catch-up to go versus your other peers in terms of costs. Where do you think the business can end up getting to a cadence of C1 costs versus your peers? Thanks very much. Cheers.

ANDREW MACKENZIE: There is not a lot new in Trion, because since winning the bid we have had to negotiate the detail documents. I believe that is now complete because next week I am on my way to Mexico City to sign everything off and have a little bit of a celebration with Pemex and the Mexican government. After that, we will obviously sit down with our partners, and we are the operator. We will staff up within Mexico and we will start to look at ways in which we can, we believe, using our thinking, further improve the economics of that project and maybe even the timescale. We will obviously keep you posted on that in subsequent announcements.

Yes, you are probably about right in terms of the analysis of the C1 costs in the Pilbara. There is about a dollar you could say are one-off and unique to us because of the way we choose to account it, but there is a little bit of a gap there. We know, absolutely, how we need to plug that, and we are on it. I would say, when you look at the total cost delivered into China, we are the market leader. We catch up considerably from the port all the way though to China, and on the premiums we get for our products and our cost of shipping. We would intend to hold onto or increase that advantage – while closing the gap, in the way we have done in a number of ways, over the coming months or year or two.

DUNCAN SIMMONDS: Thank you very much.

ANDREW MACKENZIE: Thank you, Duncan.

ANNA MULHOLLAND, DEUTSCHE BANK: Hi, Andrew. Thank you for the opportunity to ask questions. I had two. The first is on Escondida: what is the process from here? I think you are back at the negotiating table with the unions, but could you just confirm that and then give us an update in terms of the options and the potential timeframe there? The second question is on the potential view to sell your gas acreage. Are you still actively pursuing that? What is the status?

ANDREW MACKENZIE: Okay, I will ask Peter to handle the gas question and I will handle the Escondida question. You are right: we are, as of last night, back at the negotiating table. We were successful in being able to have a full shift change of the personnel we need on site to keep things under care and maintenance so that when the strike is over we can restart quickly and safely.

Obviously, we will now sit down with the unions in good faith and see whether we cannot quickly reach an agreement on what we think is the appropriate way to maintain the path towards increased productivity and increased flexibility. So that we can make, sure that the considerable investment we have made in Escondida really sets it up for 10 years with very limited further investment and a relatively constant grade. We have a more than adequate supply of water and three concentrators to generate a strong and appropriate return from the amount of capital we have put into that operation. Peter, I do not know whether you want to talk about gas divestments.

PETER BEAVEN: Thank you, Andrew. As we outlined previously, very much an integral part of our shale business strategy is, in fact, recycling the capital we have there. We have a large amount of acreage, and we have very valuable acreage. Some of it is long-dated, so what we would like to do is monetise some of those acres earlier. As Andrew mentioned a moment ago, we have done some swaps; we have also sold some acreage for very attractive prices. In fact, as we speak, we have more of the long dated acreage in the market. I think that is very sensible. We can take that capital and we can recycle it as we look, for value, to increase the rig count in due course in our core acreage in shale.

ANDREW MACKENZIE: Anna, obviously, our preference for the more significant divestments will be for parts of the gas acreage we think it is going to take us quite a while to get through to development. In the meantime, we are using things like our hedging programme at Haynesville to bring forward what we think are more attractive returns in gas assets and realise them for cash.

MENNO SANDERSE, MORGAN STANLEY: Good morning, everybody. I have two questions. Andrew, you talked about enormous potential ahead and Peter mentioned that there was much more to do as well. Those are somewhat generic statements. Can you maybe detail those somewhat? What is the potential? Is it more the cost? Is it the reinvestment in new projects? Is it Chinese/global demand growth? What are you most excited about?

Secondly, on Jansen, first, where is the project? Additionally, there is consolidation taking place in the industry, away from BHP Billiton. Has that changed the company's view on the attractiveness of this industry?

ANDREW MACKENZIE: Okay, I will try to remember all the questions, but if I do not, do prompt me. I think the first question you had was really about the future potential and the excitement we feel. It is not really about your third point, which was about how we see the economic development. We have been reasonably consistent in our views of China and, indeed, the potential involvement in India going forward. We have not changed. Particularly in China, we see the transition that is required to move to more of a services-based industry. Some of the restructuring they need to do, particularly with the debt they hold at the local community and SOE level, is going reasonably well. That gives us a sense of renewed or enduring confidence about that market in the longer term. There are also some quite positive signs about India as well.

I probably cannot answer the second two points entirely to your satisfaction. Our approach to productivity is very much about putting the structures in place and the culture in place in order to get a bottom-up response to productivity from our very talented people who work for us at BHP Billiton. We have made a lot of progress as a result of simplifying the portfolio and having simpler processes, but we introduced a new structure almost a year ago now, which we believe is rapidly accelerating the way in which best practice is shared and our ability to pull leading technology into the growth of productivity. A lot of our effort now is about marrying that with a real kind of can-do, connected and related culture, where people know everybody and they rapidly share ways in which they can improve.

We expect them to set the targets and for them to drive those improvements. Everything we are seeing coming through is behind our confidence, but our intention, generally, is just to point to unit cost guidance maybe a year out and some of the productivity targets for the rest of the half year. We will take stock, see what the bottom-up things are doing and give you the best indications we can, going forward. I think the strength of our approach is that we feel pretty confident that the vast majority of the savings we have already secured can be locked in and will not be given back in a period of more stable or higher prices. We think it can be added to significantly, both on the operating side and on the capital side.

That brings me, I think, to your question on Jansen. Obviously, we will have to consider the impact, if it is fully consummated, of the PCS and Agrium link up – and some of the other alliances that are emerging in that marketplace – and what that does for supply. As we match that, if you like, with the continuing growth in demand for potash, which is between 2% and 3% per annum, we are going well in the construction of our shafts. We are now through the difficult part, the Blairmore aquifer and so on, and we are very close to coming through into the bottom part of the shaft construction, where we are beyond the freeze zone. We are into really hard and consolidated rock. The technology is working well in both the two shafts that we are sinking.

In parallel with that, we continue to work on what kind of investment we would make, obviously, at the bottom and the top of the shafts, when they are completed, in order to start to develop a mining operation. We are trying to find ways of breaking it up into the smallest possible modules but also with the most respectable forms of capital productivity. It is going well, and that is why we are proud to say it is one of our important growth options for the future, along with some of the things we have talked to you about in copper and oil in particular. Have I handled all your questions?

MENNO SANDERSE: Perfect, thank you, Andrew.

GLYN LAWCOCK, UBS: Good morning, Andrew. I have a quick question. I am still struggling with the US onshore business. In October 2016, your petroleum group talked to us about 1,200 net liquids rich wells, +15% IRR at a $50/bbl oil, but I am looking at all of our peers now increasing rig counts. You yourself have just approved a big deepwater project based on your expectation of where oil is going to go. With everything that is happening, is there a risk that oil caps out? I know you are positive on oil, and that is why you do not want to hedge it and you are looking at it quarterly – but what if you are wrong? At the moment, we are walking away from reasonable IRRs, and your peers are pushing everything ahead. Is there a risk you are wrong? How do you compensate for that? It feels like a bit of a rock and a hard place for me.

ANDREW MACKENZIE: Some of our peers are, but I do not think we are alone in the approach we are taking. Particularly in liquids, we do not have an awful lot left in the Black Hawk, so we do want to get this right. We are not just looking at price, Glyn. We are also looking at the evolution of technology, which allows us to develop things at a lower cost than if we rushed things.

I might just go through the different regions. What I do expect, by the way, is that we will start to carefully ramp up the number of rigs. If I start in the Black Hawk, we have quite a large inventory of drilled and uncompleted wells. We are chewing through that now, because we have five frac spreads in operation. Pretty shortly, when that inventory is complete, if we want to continue to develop and grow production in the Black Hawk, we will have to add rigs. In preparation for that, we are doing a couple of trials with our partner, Devon, to see ways in which we might drill and complete differently and, therefore, further reduce the cost and further increase the productivity going forward andthey are looking pretty good, so I expect something there.

If we move, now, over to the Permian, at the moment the Permian does not really have proper infrastructure for evacuating the oil and the considerable amount of produced water. A lot of that is trucked. Before, I think we made the mistake of rushing there before we had fully appraised some of the opportunities. So we are using the rig there to appraise what might be possible within the Permian. We are also working quite hard behind the scenes to think of ways in which we might consolidate acreage with some of the other players so we can connect things up and drill longer laterals. As a result of that, gives us the chance to wait for a better midstream to be available before we ramp up there. I think we will do at these prices, particularly if they firm.

Then in gas, we have announced that we are going to add a second rig in the Haynesville and continue with our hedging programme to lock in a margin. We are also looking at whether we can extend that further as well. At the same time, technology is evolving. I would not say we were hot to trot, but we are playing a game that, I think, several of our competitors are playing: we are making sure we have done our appraisal right; we are properly aligning our acreage through trades; we are using improved technology to get things to a lower cost; and we are looking for hedging opportunities.

I do not want to make a commitment or a promise, but, given the way things look at the moment, I think we are more likely than not to be adding rigs in all of our three areas, as all of the stars start to align.

GLYN LAWCOCK: Thank you very much, Andrew.

PAUL YOUNG, DEUTSCHE BANK: Hi, Andrew and Peter. I am looking at slide 15, when you showed the potential to grow production by 60% in copper equivalent terms. That is pretty impressive potential growth, but most of it is long-dated. I am trying to get a sense of how you think about target returns. Peter, I know we have spoken about this in the past, but do you have a hurdle rate for this longer-dated growth? That is the first question. Turning to capex, reviewing your capex guidance, I see that deferred stripping will more than double in FY2018 to $900 million. It is a big contributor to the step up in Group capex.

ANDREW MACKENZIE: Can I stop you there? Unless Peter is doing better than me, we are probably only getting every second word. Peter is shaking his head as well. Maybe it is a problem on your line. I would be just guessing what the question is, because I cannot hear everything.

PAUL YOUNG: Let me talk a little slower. Can you hear me, Andrew?

ANDREW MACKENZIE: Just, yes. You are very broken up. If you take it slow, we will concentrate really hard and then we will tell you what we think you have asked us.

PAUL YOUNG: My first question, Andrew, was on slide 15. You showed the potential to grow production by 60% in copper equivalent terms. Most of this growth is actually long-dated. I am curious about how you think about target returns. Do you have a hurdle rate for this longer dated growth? Did that come through?

ANDREW MACKENZIE: Yes. Do we have a hurdle rate for the longer-dated growth? We do not actually have a hurdle rate. Peter might want to add to this. It is very much based on our capital allocation framework and how investment in those projects would compete with cash returns to shareholders in their various forms – including, for example, buy backs, as you will see on the capital allocation framework.

You are right, however: the magnitude is there. We have very strong options to grow production going forward. We have just talked a little bit about what might be possible in shale with Glyn. Obviously, we have the more modest creeping up of Olympic Dam production at 280,000 tonnes and, in the next decade, going into almost twice that, 450,000 tonnes. We have the Spence Growth Option, which our Board will look at in the second half of this calendar year, which would add another 200,000 tonnes. We have Jansen, which I have just spoken about. We have Trion. We also have some of our exploration success. Of course, we have other options at least to preserve production in iron ore and coal – or increasing coal in the case of the Caval Ridge Southern Circuit. I do not know whether you want to add anything to that, Peter.

PETER BEAVEN: Yes, I would just say three things. It is tremendous that we have this range of really, really good projects in the near, mid and long term. BHP Billiton is a company that has always had them and hopefully always will. On the long-dated stuff, you talked about the trade off between timing and value. Of course, we understand that, but, as Andrew was mentioning earlier, at times it makes more sense for us to wait: to wait for the market to come in, wait for the capital costs to go down or wait for productivity to go up. We take all those things into account, and it is always about value over volume. Again, that is another one of these mantras, but it is the reality of how we think about those things.

The final thing I would say is that there is not a different hurdle rate because they are long-dated. At the end of the day, we do not have a hurdle rate, as Andrew said, but we understand perfectly what the risk adjusted return is versus the next best use of cash, which is returning to shareholders. All of those projects will compete for capital when we get there – assuming the plan is what we think it is on the spreadsheet today. We have good strong projects.

ANDREW MACKENZIE: If I might add to that briefly, we have never really talked to investors about that, but we do work very hard to look at the risks as well as the NPVs and the returns we might get on the projects. We risk-weight our decision-making as well. Maybe try your second question now.

PAUL YOUNG: Yes, thank you, Andrew. Reviewing your capex guidance, I see that the deferred stripping will more than double in FY2018 to around $900 million. It seems that is the biggest contributor to the uptick in capex in FY2018. My question is this: is most of this increase associated with Escondida? Will the deferred stripping step up further in FY2019 with increasing throughput?

ANDREW MACKENZIE: It is a question about the third stripping. Did you get that, Peter? Did you understand it?

PETER BEAVEN: Yes, I think so. Paul, that is quite detailed, and we can help you out in the next couple of days. What I would say is that it does tend to be that Escondida is the biggest contributor to deferred stripping, but it is not the only contributor. It just depends on where you are on the phases, whether you are adding or taking away from that stock, if you like, from an accounting perspective. As I say, we will help you through understanding that better.

CLARKE WILKINS, CITI: Hi, Andrew. I just have a question with regard to the iron ore in Western Australia. I see the rail maintenance and renewal projects are ahead of schedule. In terms of the steps to 290 million tonnes in FY2019, are any approvals still required to get to that level? There has been some sort of noise about dust emissions down in Port Hedland. Could that be a constraint, if the approval or licence is not extended?

ANDREW MACKENZIE: Yes, an approval is required, but I would not get too concerned by some of the things you have read in the press. We are very confident the dust levels are falling and that there is nothing in the dust that is in any way a threat to human health. There has been a bit of discussion by one member who contributes to that debate in the press, but there are a lot of other people and a lot of other processes that get involved in achieving that approval, and we are confident we will get it.

JASON FAIRCLOUGH, BANK OF AMERICA MERRILL LYNCH: Good morning, Andrew. Good morning, Peter. I just wanted to talk a little bit about the mantra you mentioned. Everyone seems to be talking about value over volume. Historically, BHP Billiton has been more in the camp of, 'We producing at 100% of nameplate.' Today, Peter, you mentioned about holding back volumes in Onshore for value. On the other hand, if we look at iron ore, you are delivering record volumes. Could you talk a little bit more about how you think about value over volume? If it differs across businesses, I would love to hear the differences in your thinking.

ANDREW MACKENZIE: It has become a little bit of a cliché. I do not know whether I would claim complete ownership of this, but you heard it here first, at your own very conference in 2013, from my voice just after I became CEO. I have seen it picked up in both the oil and gas sector and the mining sector since then by many other people. As they say, however, it is the sincerest form of flattery.

What I would say is that, for us, value over volume means that we will only invest when we believe we can get an appropriate return, when we look at the risks, in line with our capital allocation framework. When we add value, it is about growing returns; it is about growing cash flow. It is not about growing barrels or tonnes. That happens to be a consequence of that – and sometimes an indication of our ability to grow volume. We will not be driven by volumes, however; we will be driven by value.

I do not think it is not different anywhere, because the decisions we make are about when we invest capital and whether we think the market, in some ways, can handle the additional volumes that will come from that capital and, therefore, support the kind of price that drives the value we are chasing. Once we have invested capital, almost certainly, the value maximising strategy for us, at the bottom of the cost curve, is to drive the productivity of that capital to the highest point possible. Much of the volumes we add through productivity come at no additional cost or very low additional cost – and we always think that is worth doing. We do believe that is a value-adding activity for our shareholders.

There is no difference between a decision we make to drill another well in the shale business, the investment we might make in Mad Dog 2 or, in the long run, the decisions we would have around Jansen. It is the same philosophy.

JASON FAIRCLOUGH: Thank you, Andrew. That was very clear.

PAUL McTAGGART, CREDIT SUISSE: Hi, gentlemen. On Bass Strait, obviously, we have lots of discussion in Australia about east coast energy policy. Bass Strait is uniquely positioned in a way, because you can get an improving gas price through time. It is a mature asset, which is still a big contributor. How are you thinking about that at the minute? Do we kind of continue to hold it while it moves into a decline phase or is a time approaching, as energy prices improve here, that it becomes time to think about selling it on?

ANDREW MACKENZIE: Obviously, we are not the operator of Bass Strait, so by and large we prefer the majority of the statements around that to be diverted towards ExxonMobil. I am not sure I can add much to your question at this stage. I do not know you have anything you would like to say, Peter. Obviously, there has been some activity there, but you are right: it is a very strong and powerful cash generator for us, and we like it for that reason, particularly the better parts of it. Do you have analysis more insights, Peter?

PETER BEAVEN: I would just reiterate what a wonderful asset it has been all these years. Honestly, it still has plenty of guts left in it. Gas price equalisation has changed the way gas pricing is affected on the east coast, but, certainly, it remains a very attractive and important part of our portfolio. As you know, we are seeking to sell some parts of the liquids, which are really very mature at this stage – but apart from that I think it is still a tremendous part of our portfolio.

PAUL MCTAGGART: I was thinking about when this would become more valuable to someone else than it is for you. Your stake, that is, not necessarily the whole thing.

PETER BEAVEN: We have made that decision, because we have looked through the composition of Bass Strait and we have sole processes underway – but that is not the case for the main bulk of the asset. Obviously, we have looked at that for that asset – and we look at it for all assets, actually.

HEATH JANSEN, CITI: Good morning. On Samarco, you said it was potentially technically possible to start this year. I was wondering about what milestones you are looking at and, also, with the potential debt restructuring, what you need to get through to be in a position to restart. Secondly, in terms of the market for the product, are you comfortable you can restart that and increase your marketing operations etc on the back of it as well?

ANDREW MACKENZIE: I will give you a very high-level answer on the market. However, I go around the world talking to a lot of our customers. They certainly miss the product. It is a relatively small operation, although it produces pellet, compared to some of its rivals. I do not think there is any issue in the market for a restarted operation.

In terms of other issues, you have sort of said the milestones already. I would add one. We have to get an agreement with Vale, because we are going to make use of a couple of their pits to dispose of the tailings. Of course, that allows us to get a lot of the approvals, which would be much longer to achieve if we had to rebuild a tailings dam. We are working with them on the right technology to put tailings into those dams and the appropriate commercial arrangements that Samarco would have with Vale. Of course, we are on one side of that and Vale is on both sides of that. That has to be worked through.

You are right, we do need to reach agreement with the banks and the bondholders – Peter may want to say a bit more on this – on what we think is an appropriate restructuring of that debt that reflects, if you like, the shared pain between the equity holders, ourselves, yourselves, the people you write for, and the bondholders. That will be a critical part of whether or not the restart will be viable. Then, of course, there is a raft of approvals that have to be achieved, even though it is made easier by using Vale's pits.

They are important milestones. I would also said that reaching agreement with some of the key prosecutors on some of the outstanding claims could make a difference – although the more important approval authorities in this area, though not exclusively, are more at state than federal level. All I was trying to hint at in my remarks was that, with a fair wind and a lot of coming together, you can write down a project chart that says it could work by the end of this year. We would love that to be the case, but it is an optimistic case, we are saying, given the complexity of what has to be achieved.

JAMES GURRY, CREDIT SUISSE: Hi, Andrew. Thank you for taking my questions. I have three quick ones just about projects. Olympic Dam has never been the easiest asset. You are developing your southern project, and obviously you are thinking about the 450,000 tonnes per year. How do you think about that project in light of the power situation in South Australia? Secondly, with the Spence growth project, would you be comfortable approving that project in light of the strikes you are seeing at Escondida? Thirdly, back to Jansen and what Menno was talking about, previously you spoke about maybe introducing a joint venture partner there; is that option still on the table and being considered? Thank you.

ANDREW MACKENZIE: Okay, these are reasonably easy questions. Absolutely, we would not look at a major expansion of Olympic Dam unless we can be confident that we have a reliable and affordable source of power within South Australia. We sincerely hope that the government of South Australia and some of the reviews that are underway at the moment that we are contributing to, some of which go to the federal level, actually address some of the great difficulties we have had to face. These have cost us $100 million in this period, because of the very poor provision for power within South Australia. That needs to be fixed before we would push ahead with a project like that.

There is no real link between the Escondida strikes and SGO. We recently reached an agreement with the Spence workforce, amicably, without a strike, so that is not a factor. This is something that is specific to Escondida and will not spill over into Spence, given that we have, I think, a three year agreement there for a while. We are pretty confident of our relationships with the workforce at Spence.

Yes, we will continue to look into the possibility of some form of sell down or joint venture at Jansen. We continue to leave that on the table. It is been our experience to date that without a clear route to sanction, which we are unwilling at this stage to provide until we really understand the economics and the market, everything that I talked about earlier, it is difficult to attract a large number of potential buyers. We certainly remain open for business.

JAMES GURRY: Okay, and if I may just follow up, could we expect Spence to be approved within the next six months?

ANDREW MACKENZIE: I cannot give you the answer; it is a power of the Board of BHP Billiton, but I can reassure you that it will be considered and ready for consideration by the Board within the next six months.

JAMES GURRY: Great, thank you.

HAYDEN BAIRSTOW, MACQUARIE: I just wanted a quick question on met coal. Have the Chinese policy changes that we have seen in the last year, and coming back, changed your thinking around met coal? Obviously, the Caval Ridge project looks pretty good, but would you go beyond that and even look at future longwall developments? Or is met coal off the radar at this point?

ANDREW MACKENZIE: I do not think it is off the radar; I do not think it ever has been for us. We have been very strong; this is one of our pillars. Caval Ridge is certainly close to being approved. We have got a lot of the benefits, albeit at a higher cost, within this period by running what we have at Caval Ridge a bit harder, and also by trucking some met coal from Peak Downs. This is a business that we think has good potential, and we look at it in that light. It is a particularly attractive business for us because of our position in the market, and the fact that India has no real metallurgical coal, unlike China. There is no doubt that the Chinese tried to restructure their mining activities in both coals, and indeed in iron ore, through their restructuring of steel. It has probably made the bulks a little bit more investable than they would otherwise have been.

I do not think we made a big change to our long term assumptions. Peter, would you like to say something?

PETER BEAVEN: Yes, I just wanted to add that it is an interesting question on whether we can do further longwalls. One of the less well known facts is the strength of our seams and the fact that we have top coal caving and working at Broadmeadow and that longwall is the most productive longwall in Australia, in this last period. That gives us opportunities to deploy that technology in further parts of our resource base, which are not actually replicable. We are one of the very few that has the height of seams that we have. That is definitely something we are looking at, but of course, everything has to take into account the impacts on markets and the value, etc. I just thought I would throw that in.

ANDREW MACKENZIE: No, it was a good pick-up. I feel ashamed of not raising it, since I was there three weeks ago and saw the longwall in operation, and was reassured in a very bottom up way by the people who drive productivity that even though we are the top operating longwall, I think, in Australia that they could go a lot better in the future. Peter is right, and particularly with perhaps a little more pressure on the remediation of open pits, having that ability to go a bit deeper and have a little less disturbance, and take the majority, or as much of the 9–metre seams as we can, is quite something. Next question?

SYLVAIN BRUNET, EXANE BNP PARIBAS: Andrew and Peter, good morning. I have three quick questions. The first is on Escondida, just to help us understand the framework of the talks. What would be your priorities, and what sort of productivity framework do you have in mind? The second question is on capex. If we are to define maintenance as the capex number required for volumes to stay flat, I am interested to know if you would have a number for both oil and copper. Lastly, on Trinidad and Tobago, I am just wondering how big the drilling programme was. On page 13 you talk about phase one. How many more of these phases are there, and how much of this investment has been expensed already? Thank you.

ANDREW MACKENZIE: I did not quite understand your question on framework, but let me answer the second and third question, perhaps in reverse order. We have drilled two wells of the current programme in Trinidad and Tobago. One of them, LeClerc, discovered a fairly substantial volume of gas, which we believe could be commercial, and we are working on that right now. A second one, Burrokeet, gave all the indications of being a working oil province, but because of these two wells we now have a lot more calibration of the stratigraphy in our seismic, and so we are re mapping them all. That is really just to understand a revised prospectivity and where we would drill next. In the meantime, we have moved the drilling operation back to the Gulf of Mexico to drill the Wildling well, and after that it will drill another prospect, Scimitar. Probably when that is completed we will have a sense as to what pace we want to do.

There is quite a longer–term commitment. I do not know the exact numbers, and I am sure the people from Investor Relations can help you with that, because I do not carry that all in my head. I have given you such a long answer. What was your second question again? I have forgotten it. I should have written it down.

SYLVAIN BRUNET: The second question was on capex, basically, to get a sense of what number in both conventional oil and copper you would need just to stay at flat production.

ANDREW MACKENZIE: We do not actually calculate that. For us, we are getting tighter and tighter on defining maintenance capital because we now have this big global drive on maintenance. We have a new Centre of Excellence for Maintenance, which reports to Mike Henry. We are getting much tighter on the definition of that. We have stripped out some things that were just about adding volume, and it is entirely really about maintaining asset integrity. Everything else we call growth capex. It does not matter whether it is replacing a depleted oil well or a falling grade in copper, or whether it is adding coal tonnes. They all have to compete, not just with each other on a risk and time basis, but obviously with other issues of cash, like the balance sheet or cash returns to shareholders.

We do not even begin to calculate that number. We do not think it is a valid number, because we would not favour maintaining volume over growing value, and therefore everything else is about value, beyond things that we would do for asset integrity, which I think we spent $600 million on in this half year. Maybe try the framework question again. Was it about the capital allocation?

SYLVAIN BRUNET: Yes. I was just wondering what your productivity priorities would be, in exchange for any potential pay rise that you could negotiate.

ANDREW MACKENZIE: Did you get that, Peter? Sorry, the line is not great, Sylvain. Our priorities in exchange for what?

SYLVAIN BRUNET: I just wanted to get a sense of what would be your requirements on your side of the negotiation.

ANDREW MACKENZIE: Oh, at Escondida?

SYLVAIN BRUNET: Yes, at Escondida.

ANDREW MACKENZIE: I think I said them earlier. I will not share our details. Our requirement, broadly speaking, is that we get a deal that supports and rewards productivity and flexibility, and sets the Escondida cost structure up in a way that we believe is appropriately competitive for the long term, and make sure that we get an appropriate return for the considerable investment that we have made through the Escondida Water Supply project, the Los Colorados Extension, and indeed the addition of OGP1. That is what is on the table.

SYLVAIN BRUNET: Okay, thank you.

LYNDON FAGAN, JP MORGAN: Hi Andrew. A couple of questions from me. Going back to Escondida, if I look at that revaluation or reassessment of the recoverable copper that produced a $369 million credit in FY16 and again a $275 million credit just in this half, which is more than $0.25 per pound credit to cost. To be honest, it is a big driver of the whole result versus consensus. Can you provide us a bit of guidance on how to mull or think about that number, at least, going forward into the next result?

My second question is on the settings in which you are thinking about project approvals and broadly running the business. If we go back to last year, copper and petroleum were ranking as the most preferred commodities, well ahead of met coal and iron ore, but I guess in fact iron ore and coal, at least from a commodity price point of view, have outperformed. With iron ore at over $90, I am just wondering whether completing the rail maintenance programme early could see you ramp up production volumes at all, or whether there is some other bottleneck beyond completing that in the middle of this calendar year that restricts that. Thank you very much.

ANDREW MACKENZIE: Let me do the second one first. Our preference is still, in the medium to long term, to grow in oil and copper, or to add oil and copper production units, and then possibly potash. It does not mean that we completely neglect some of the things in the bulk. We still have some work to do in order to de–bottleneck the port, to match obviously the mine capacity that we now have, with the full ramp up of Jimblebar, and the real capacity to move towards 290mt.

Your first question was on how much productivity has come from Escondida in this period. That is true. Productivity does not always come in a nice, linear fashion, equally distributed between every asset. It comes in lumps and starts and so on. There have been other periods when more of the productivity has come from other businesses. I am sure that will be the case in the future. I do not know, Peter, if you want to add anything more to the accounting treatment and why we believe quite strongly that this is a recognition of more productivity through more recovery?

PETER BEAVEN: Yes. That is exactly right. The background of that, if you recall, is that we completed the EBPEIV project, which allowed us to have confidence that our recoveries were not only higher in the near term, but in fact we had a longer period in which to recover that copper. Of course, that is a static pad, so that makes a big difference now. You know how much material we have stacked there. The technology that we applied through that project has therefore translated into a recognition of an increased stock of recoverable copper. Obviously you have the same amount of cost, because it is already stacked, but you have a higher amount of recoverable copper there. Therefore, of course, that means the unit cost of that stacked tonne has come down. We recognised that over two periods: the last period and this period, as you have just mentioned. We will continue to monitor that, but I think we have seen the big material movements.

I just wanted to say, also, that this is true productivity. Those tonnes will come through in cash form in due course. At the end of the day, it was $275 million, so I do not think it in any way detracts from the excellent productivity achievements across the entire spectrum of the organisation, in this period and prior periods.

ANDREW MACKENZIE: Is there another question?

HUNTER HILLCOAT, INVESTEC: Sorry, guys; I am sure you are keen to go by now. In terms of your capital allocation framework, clearly the net debt position you are in now was a beat, albeit for some of the reasons you have already described. Clearly, this year there is a potential for very strong cash generations going ahead. Where should we think of gearing, now that you are in the mid 20-30% area? Where should we think of gearing longer term, in terms of being able to forecast what shareholder returns could look like?

ANDREW MACKENZIE: We do not have targets like that, but, Peter, I do not know whether you would like to elaborate?

PETER BEAVEN: Yes. Just let me reiterate what we have said in the past about how we think about our balance sheet. A fundamental part of our strategy, of course, is having a strong balance sheet. How we assess this is with a range of metrics. In fact, we prefer net debt to cashflow metrics; we think they are more appropriate than gearing. We do look at gearing, it is part, but it is a secondary metric. We also think of the tenure and of course liquidity and so on. We put all of those things together, and then we stress test that for various cases that we can see going forward. Obviously, we use our own assumptions. We also simulate events, if you like, just to make sure that whatever circumstance arises, the balance sheet of this organisation will remain strong.

What we have also said a moment ago, as you know, is that we have a bias to reducing net debt, and we continue to be in that space today. Yes, there are higher prices today, and those things have changed, happily. On the other hand, our view on what could be low prices has not really changed. So, when we stress test our balance sheet and we think about that, we continue to want to make sure that we have an even stronger balance sheet than we have today.

The other thing that adds to that, of course, is the general uncertainty in the world, which further gives us the sense that we should be on a bias to conservatism at the moment. There is an endpoint to that, and we will continue to guide on the matters that make up the capital allocation framework, whether it be maintenance capital or a strong balance sheet, as I am explaining, or the dividend policy or the growth capex. We think there is plenty in there for you to make your own assessments as to where we would likely go. We will continue to update that as we go, and certainly, obviously, every single period.

ANDREW MACKENZIE: We have time for one more question. One final question, if there are any more.

PETER O'CONNOR, SHAW AND PARTNERS: Good morning, Andrew. Following on from the question about South Australia, Olympic Dam and power, what are your thoughts on sovereign risk in Australia, which should be a safe place to operate? With Western Australia and the royalty discussions, and also that power issue, how are you thinking about Australia in that regard?

The next question is for Peter: on Queensland coal, the cost trend piece half on half, up 10% on $5 US. Do you have any comments on that, bar the commentary you made in the commentary earlier?

ANDREW MACKENZIE: You obviously want me to answer the first question, and Peter to do the second. Why do you not do the second question, Peter? I will handle the first one and then I will close.

PETER BEAVEN: On the half on half, we do not have an exactly like for like portfolio. Crinum has come out, and obviously those are very low cost tonnes, and lots of them. That dilutory effect, unfortunately, has just run out of resource. That is just the way it is. In addition to that, as Andrew mentioned a moment ago, we have incurred, knowingly and I think correctly, additional trucking costs from Peak Downs up to Caval Ridge to maximise those very attractive margins that we have been seeing for the last few months. The final thing I would say is that we did have a little bit of rain and weather, and you have seen that in our production numbers. It is in our operating report that we have issued just a few weeks ago. Those things also took the top off that.

Now, having said all that, I think the productivity story remains very much intact. We have retained our guidance. The only movement on our guidance is FX related. All the plans are in place, they are being effected, and we continue to see in fact very good cost outcomes in Queensland coal.

ANDREW MACKENZIE: If I might just add to that, obviously, because we have been trucking some volumes and there has been some additional cost, of course there have been some additional volumes. Those volumes will continue, and maybe be added to, when we do the Caval Ridge southern circuit, but of course the costs will come out. The other thing I would say is that we have made a lot of progress in this half year in increasing the utilisation and availability of a lot of our coal plants. By and large we have removed them as the bottlenecks, but we have lots of opportunities, through further working on things like truck hours and the operations of the mine, to further increase volumes as well. There is a lot still happening in coal, and a lot more cost reduction still to come.

I will not be drawn on Australia's sovereign risk. We have challenges all around the world. Nothing is absolute, and we are very proud of our opportunities to invest in Australia. We appreciate the open debate about the right way to, if you like, manage taxation within Australia and incentivise investment. We have that debate everywhere in the world. There is no particular disadvantage that we would see in Australia. I would say that, net-net, relative to many countries in the world, it is still a very attractive place to do business. We are very happy to call Australia home, even though I am here in London.

That is probably an appropriate place to finish. Thank you for all your questions. I am sure Peter looks forward to meeting those of you in Australia in the next few days, and likewise myself for those of you who have phoned in from London and the United States. Thank you.